

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | APRIL 2022

PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. ²	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. ⁴
Fund ¹	-1.44%	5.29%	1.76%	8.51%	22.27%	9.22%	7.22%	-	-	-	-
Strategy composite ³	-1.44%	5.29%	1.76%	8.51%	22.27%	9.22%	-	9.65%	11.61%	12.00%	9.85%
Benchmark	-0.85%	8.24%	3.59%	10.16%	20.02%	9.42%	9.57%	10.12%	8.61%	10.34%	7.46%
Excess Return	-0.59%	-2.96%	-1.84%	-1.66%	+2.25%	-0.20%	-2.35%	-0.47%	+3.00%	+1.66%	+2.39%

ABOUT FIRETRAIL

Firetrail is an investment management boutique which is majority owned by the Firetrail investment team. Additionally, the investment team is invested alongside clients in the investment strategies.

AUSTRALIAN HIGH CONVICTION FUND

The Australian High Conviction Fund ("Fund") is a concentrated portfolio (approx. 25 companies) of our most compelling equity ideas. The strategy is built on fundamental, deep dive research guided by the philosophy that 'every company has a price'.

INVESTMENT OBJECTIVE

The Fund aims to outperform the ASX 200 Accumulation Index over the medium to long term.

PORTFOLIO POSITIONING

30 APRIL 2022

Top 3 Overweight Holdings (Alphabetical)

QBE Insurance Group Ltd

ResMed Inc

Santos Ltd

FUND DETAILS

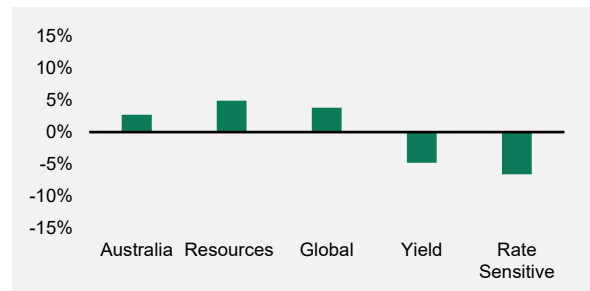
Unit Prices	30 April 2022
Application price	\$ 1.2664
Redemption Price	\$ 1.2626
NAV Price	\$ 1.2645
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	25
Fund size	\$712mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle

*Please read the Product Disclosure Statement for more details

THEMATIC POSITIONING

30 APRIL 2022

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

The Product Disclosure Statement ('PDS') and the Target Market Determination ('TMD') of the Fund is available at www.firetrail.com. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

1. Firetrail Australian High Conviction Fund ('Fund'). Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. 2. Fund inception is 14 March 2018. 3. The Fund has been operating since 14 March 2018. To give a longer-term view of our performance for this asset class, we have also shown returns for the Firetrail Australian High Conviction Strategy Composite ('Strategy') which has been operating since 29 November 2005. Strategy performance has been calculated using the monthly returns (after fees) of the Fund from 14 March 2018 to current date, as well as the monthly returns of the Macquarie High Conviction Fund (after fees) between 29 November 2005 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie High Conviction Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie High Conviction Fund. The composite returns for the Strategy and the S&P/ASX 200 Accumulation Index (Benchmark) exclude returns between 24 November 2017 and 13 March 2018. During this period the investment team did not manage the Strategy. As such, the annualised performance periods stated are inclusive of the combined composite monthly returns, and do not include the period when the team were not managing the Strategy. For example, the annualised return over 3 years for the Strategy and benchmark are inclusive of 36 monthly performance periods available in the composite return period, excluding the period between 23 November 2017 and 13 March 2018. For additional information regarding the performance please contact us through the link on our website. Net Fund returns are in AUD terms. Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. Past performance is for illustrative purposes only and is not indicative of future performance. 4. Strategy inception 29 November 2005.

PORTFOLIO COMMENTARY

The Fund returned negative 1.44% for the month ending 30 April 2022, underperforming the ASX 200 Accumulation Index by 0.59%.

CONTRIBUTORS TO RETURNS

Positive contributors included QBE, Lendlease and Ampol. Negative contributors included Megaport, ResMed and Lynas Rare Earths. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

QBE Insurance Group

QBE Insurance Group shares outperformed in April on the back of rising bond yields across all major geographies. QBE has significant leverage to short and medium-term interest rates given its substantial investments in fixed interest assets. Results from US insurers in April also indicated that margins continue to expand as price increases remain above claims inflation.

Lendlease

Lendlease shares outperformed in April as value stocks outpaced growth stocks through the month. The company didn't report any material news but did host a virtual tour of its Military Housing business which was attended by the Firetrail team.

Ampol

Ampol shares outperformed in April with the company receiving final approvals for its acquisition of Z Energy during the month. Ampol also reported 3Q FY22 earnings. In a quarter disrupted by Omicron, it reported a 6% decline in retail fuel volumes which was broadly in line with market expectations. In-store sales growth of 6% stood out as a notable positive and elevated refining margins also boosted earnings.

NEGATIVE CONTRIBUTORS

Megaport

Megaport underperformed over the month. Reported 3Q revenues grew 43% on last year, however this was modestly below market expectations. A lower step-up in monthly recurring revenue (MRR) raised some concerns around the pace of its partner channel strategy ramp-up and the extent to which this may be impacting momentum in Megaport's core business. We continue to believe the medium-term growth opportunity for Megaport is significant and will be realised within a reasonable timeframe.

ResMed

ResMed underperformed during April as it reported its 3Q result which was impacted by the global chip shortage. The inability of suppliers to fulfill contracts has hampered ResMed's ability to meet a substantial uplift in demand resulting from a major competitor recall. ResMed remains confident of growing sales through FY23 despite limited supply chain visibility, and highlighted a 12-18 month patient backlog that will also need to be addressed in time.

Lynas Rare Earths

Lynas Rare Earths underperformed during the month as rare earth prices retreated from all-time highs. Lynas reported strong 3Q FY22 production during the month. Record high production added around A\$100m to Lynas' cash position during the quarter despite significant expenditure on expansion projects. These projects will increase production by ~40% over the next 3 years to meet soaring demand from the electric vehicle and wind turbine sectors.

PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

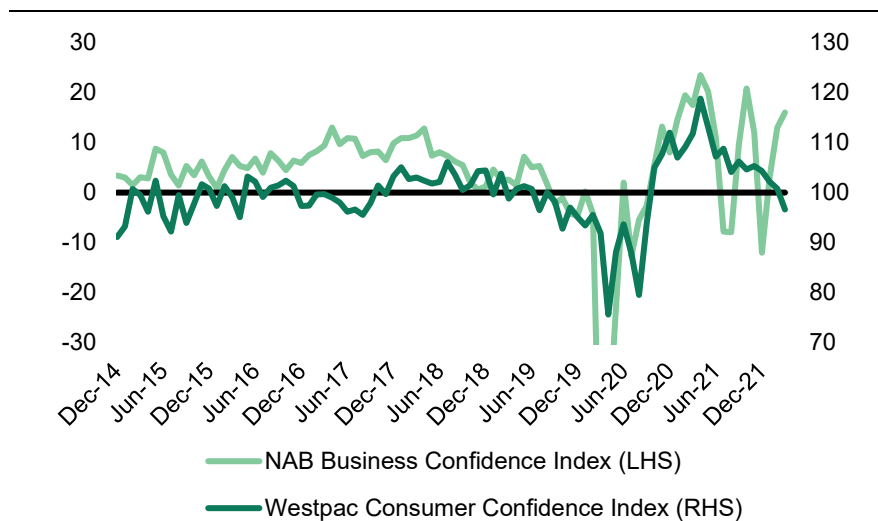
- Highly concentrated with an active share of 76%.
- Overweight
 - Re-opening trades like Qantas Airways and Santos, where competitive dynamics have improved post-COVID.
 - Base metal and EV materials where supply won't be able to keep up with demand in the medium-term.
 - Market leaders such as ResMed, Aristocrat and James Hardie who are benefiting from strong demand while winning market share in their categories.
 - Financials with material leverage to interest rate rises including Virgin Money UK and QBE Insurance Group.
 - Undervalued defensive companies including Newcrest Mining and Telstra.
- Underweight positions in Australian banks and iron ore where we don't see compelling opportunities.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

In April, we saw a marked divergence in indicators of consumer and business confidence. Consumers are nervous about rising interest rates and a rising cost of living. On the other hand, business confidence levels are close to decade highs.

NAB CEO Ross McEwan commented that "it seems like SME customers are wanting to invest and grow", however we note that we have rarely seen these indices diverge for extended periods of time.

Figure 1: Consumer confidence and business confidence levels have diverged in recent months



Source: NAB, Westpac, Firetrail

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Link to the Product Disclosure Statement: [WHT3810AU](#)

Link to the Target Market Determination: [WHT3810AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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